

Message Text

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ACTION EB-12

INFO OCT-01 AF-10 ARA-16 EUR-25 EA-11 NEA-14 ISO-00 FEA-02

AEC-11 AID-05 CEA-02 CIAE-00 CIEP-03 COME-00 DODE-00

FPC-01 H-03 INR-11 INT-08 L-03 NSAE-00 NSC-07 OMB-01

PM-07 RSC-01 SAM-01 SCI-06 SP-03 SS-20 STR-08 TRSE-00

FRB-03 SSO-00 NSCE-00 USIE-00 INRE-00 PA-04 PRS-01

DRC-01 /201 W

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O 032106Z OCT 74

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC IMMEDIATE 6158

INFO AMEMBASSY ALGIERS

AMEMBASSY BEIRUT

AMEMBASSY DHARAN

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LONDON

AMEMBASSY QUITO

AMEMBASSY TEHRAN

AMEMBASSY TRIPOLI

AMEMBASSY VIENNA

USMISSION EC BRUSSELS

USMISSION OECD PARIS

C O N F I D E N T I A L CARACAS 9845

EO 11652 GDS

TAGS: ENRG, EFIN, VE

SUBJ: GOV EXPLANATION OF OIL INCOME TAX INCREASE

REF: CARACAS 6768

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1. PETATT MET WITH DR ALBERTO FLORES, CHIEF OF

PETROLEUM ECONOMICS AND VENEZUELAN OPEC GOVERNOR, FOR DISCUSSION OF NEW OIL INCOME TAX INCREASE. FIRST QUESTION WAS HOW DID MINISTER ARRIVE AT 18.5 PERCENT TAX EQUIVALENT RATE FOR FOURTH QUARTER 1974. FLORES REPLIED THAT GOV TAKE INCREASED AS RESULT OF NEW 3.5 PERCENT INCOME TAX RATE INCREASE FROM US\$8.66 TO 9.06 PER BARREL. INCREASE IS THUS 40 US CENTS PER BARREL. THIS 40 CENTS IS EQUIVALENT TO 4.6189 PERCENT PER QUARTER OR APPROXIMATELY 18.5 PERCENT FOR WHOLE YEAR 1974, IN TERMS OF GOV TAKE.

2. FLORES SAID THAT OIL COMPANIES HAVE INFORMED MINES MINISTRY THAT AVERAGE SALES PRICE FOR VENEZUELAN OIL IS US\$10.14 PER BARREL. WITH GOV TAKE NOW AT 9.06, COMPANIES ARE LEFT WITH 1.08 GROSS REVENUE PER BARREL. OF THIS LATTER FIGURE, FLORES CALCULATES AVERAGE PRODUCTION COST OF 75 CENTS PER BARREL, LEAVING COMPANIES NET PROFIT OF 33 CENTS PER BARREL. THIS, ACCORDING TO FLORES, IS A TREMENDOUSLY CONSERVATIVE CALCULATION, SINCE IT REPRESENTS TRANSFER PRICE OF FIVE LARGEST PRODUCERS, AND DOES NOT TAKE INTO CONSIDERATION ARMS LENGTH SALES MADE BY INDUSTRY IN RANGE OF \$12 TO 13 PER BARREL. FLORES SAID FURTHER THAT CREOLE STATEMENT THAT IT CALCULATES TWO CENTS PER BARREL LOST FOR FIRST HALF 1974 IS AN INSULT TO HIS INTELLIGENCE. (A US OIL COMPANY OFFICIAL REPRESENTING COMPETING US PRODUCER HERE REMARKED TO EMBASSY OFFICER OCT 2 THAT CREOLE MUST BE SELLING OIL AWFUL CHEAP IF COMPANY SUFFERED LOSS FROM NEW TAX RATE.)

3. WITH RESPECT TO SHELL COMPANY, FLORES CHECKED HIS FILES AND SAID TAX INCREASE FOR THAT COMPANY AMOUNTED TO BS305 MILLION, ABOUT BS100 MILLION LESS THAN COMPANY PUBLICLY ANNOUNCED, AND COMPANY'S OWN ESTIMATE TO MINISTRY OF TOTAL TAXES FOR 1974 IS NOW BS9,765,000,000.

4. FLORES PROFESSES TO KNOW NOTHING OF RUMORED CHANGE IN PETROLEUM DOLLAR EXCHANGE RATE AND DISCOUNTS STORY. HE SAID FURTHER THAT NEW EFFECTIVE OIL COMPANY INCOME TAX RATE IS 61.5 PERCENT, WHICH APPEARS TO CONFIRM THAT OIL COMPANIES WILL NOT LOSE THEIR 52 PERCENT INCENTIVE
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TAX CREDIT FOR THIS YEAR. OFFICIAL INCOME TAX RATE IS, AS REPORTED, 63.5 PERCENT.

5. FLORES EXPLAINED THAT PART OF RATIONALE FOR MAKING OIL COMPANY TAX INCREASE RETROACTIVE TO BEGINNING OF 1974 IS TO CONFORM TO ARAB COUNTRIES' POSTURE OF MAKING BUY-BACK RATE OF 94.85 PERCENT RETROACTIVE TO FIRST OF YEAR. HE SAID THAT VENEZUELA WAS SEVERALY CRITICIZED

IN VIENNA IN SEPTEMBER FOR UNDERCUTTING OTHER MEMBER COUNTRIES' OIL PRICES. ALLEGEDLY, OTHER MEMBERS CITED EXAMPLES OF LOWER VENEZUELAN CRUDE PRICES, INCLUDING API GRAVITY 27 WHICH WAS SELLING AT APPROXIMATELY \$1.40 PER BARREL BELOW SAUDI ARABIAN CRUDE. CRITICISM BROUGHT QUICK AGREEMENT FROM VENEZUELA TO INCREASE TAX AS MEASURE TO COUNTER STATEMENTS THAT THIS COUNTRY HAD SLIPPED FROM ITS LEADERSHIP ROLE IN OPEC.

6. EVEN WITH TAX INCREASE, FLORES STATED THAT VENEZUELAN OIL REMAINS UNDERPRICED IN COMPARISON WITH OTHER PRODUCERS. HE PRODUCED CHART OF COMPARISON PRICES AND PERMITTED NOTES TO BE TAKEN. FOLLOWING IS HIS COMPARISON OF FOUR API OILS WITH CALCULATION OF HOW MANY DOLLARS PER BARREL LESS VENEZUELAN OIL SELLS FOR WITH RESPECT TO COUNTRIES LISTED:

API	SAUDI ARABIA	IRAN	KUWAIT/QATAR	NIGERIA
27	0.7959	--	--	--
31	0.4339	0.5749	0.6839	--
34	0.1654	0.4144	--	1.4444
40	--	--	0.4396	1.6556

ABOVE PRICE DIFFERENTIALS CALCULATED OCT 1, 1974 AND INCLUDE ALL FACTORS. EMBASSY HAS NO WAY OF VERIFYING ACCURACY OF THIS DATA.

7. THERE WAS TIME TO COPY ONE EXAMPLE OF A PRICE WORKUP OF API 27 VENEZUELAN CRUDE. OTHER POSTS MAY WISH TO HAVE THIS INFO FOR THEIR OWN COMPARISON.

QUOTED PRICE	12.3962
SULFUR ADJUSTMENT	1.9086

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EXPORT PRICE	14.3048
LESS: ROYALTY	2.2948
PRODUCTION COST	0.5120
NET TAX BASE	11.4980
TAX RATE (61.50)	
INCOME TAX	7.0713
GOV PARTICIPATION	9.3661
COST AND TAXES	9.8781
FREIGHT - NY	0.4160
COSTS & FT CIF-NY	10.2941

8. ASKED IF CREOLE REACTION TO TAX HIKE WILL HAVE ANY EFFECT ON REVERSION STATUS, FLORES REPLIED THAT GOV IS HOPEFUL OF A SMOOTH TRANSITION TO REVERSION AND ATTITUDE OF COMPANY IS NOT HELPFUL. REVERSION IS A FOREGONE

CONCLUSION AND OIL COMPANIES SHOULD NOT GET INTO POSITION OF USING THEIR RIGHTS AS CONCESSIONAIRE TO OBSTRUCT MOVEMENT TO REVERSION.

9. UP UNTIL LAST MINUTE, PRIVATE OIL COMPANIES HERE THOUGHT GOV TAX INCREASE WOULD BE ONLY THREE PERCENT, AND MORE IMPORTANTLY, NOT RETROCACTIVE TO BEGINNING OF YEAR. ONE VERSION OF STORY WAS THAT MINES MINISTRY PROPOSED SLIGHTLY HIGHER TAX INCREASE AND NO RETROACTIVITY FEATURE, WHILE FINANCE MINISTRY OPTED FOR LOWER INCREASE APLIED TO ENTIRE YEAR. MINISTRIES COMPROMISED FOR FULL YEAR AT THREE PERCENT, AND PRESIDENT PEREZ ADDED FINAL ONE-HALF PERCENT. ACCORDING TO THIS VERSION, PUBLIC PRETEXT WAS THAT FINAL RATE CONFORMED TO OPEC GUIDELINE, WHILE REAL REASON WAS TO STAND UP TO PRESIDENT FORD.

10. ABOVE THEORY IS SPECULATIVE. GOV IS SOPHISTICATED IN ITS PRICING POLICY AND IS KNOWN TO HAVE HAD UNDER CONSIDERATION VARIOUS ALTERNATIVE INCREASES. SINCE, AND EVEN BEFORE, THE OPEC MEETING THE GOV HAS HINTED THAT IT MIGHT RAISE THE TAX RATE BY AN AMOUNT HIGHER THAN THAT AGREED TO BY OPEC. FISHER

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Message Attributes

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